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31 MAY 1972

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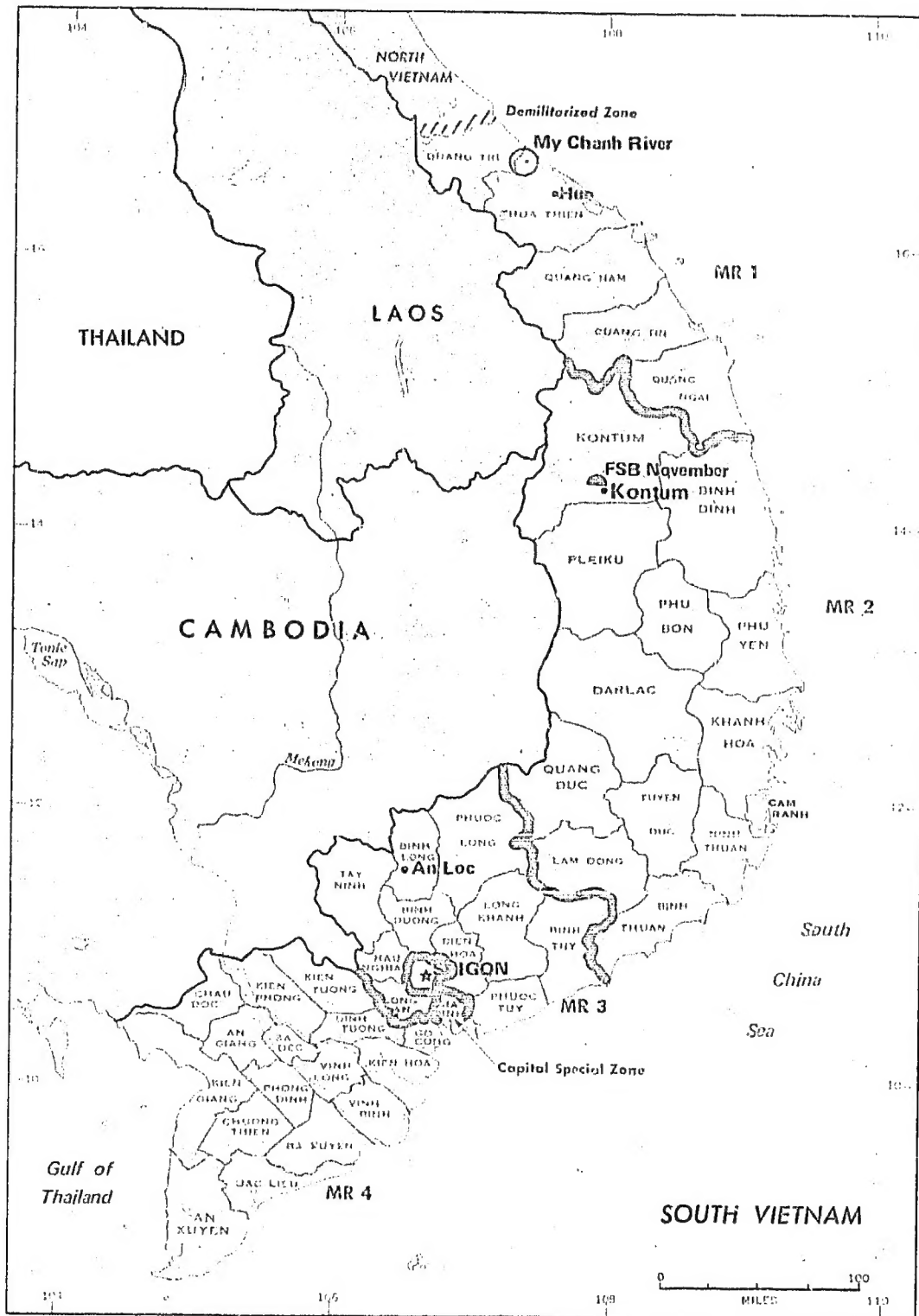
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(VIETNAM: Kontum City is still being shelled, and Communist forces still hold areas on the eastern and northern edges of the town; the strong pressure from attacking enemy ground forces, however, appears to have eased at least temporarily.

The South Vietnamese are attempting to clear Communist forces from the sections of the city they still hold. Government patrols around the periphery of the city are encountering resistance, indicating that the enemy is still nearby in strength. The government regiment that had evacuated Fire Support Base November north of Kontum has fought past a blocking force and has reached the city. President Thieu reportedly made a quick visit to Kontum on 30 May, where he promoted the commander of the South Vietnamese 23rd Division to brigadier general, presumably in recognition of the fight being put up by the division against a numerically superior Communist force.

In the Hue area, the government's My Chanh River defense line appears to have stabilized. The South Vietnamese again hold essentially the same positions they held on 21 May, when the latest round of North Vietnamese assaults began. The South Vietnamese report that the artillery support being provided North Vietnamese ground troops north of Hue has recently become less intense.

To the south, at An Loc, a force of unknown size has worked its way close to the main South Vietnamese command post in the city and a sharp firefight is under way.

* * * *

The offensive has triggered a severe economic recession in Saigon as people have stopped buying many consumer goods and services, spending their

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(cash only for the necessities of life. According to an Embassy survey, retailers, wholesalers, importers and manufacturers have all felt the impact in succession. Many firms are caught with large inventories financed at high interest rates and thus are hard pressed for cash. Some firms are going out of business, and there is a widespread credit squeeze. No major business revival appears likely until the end of the current offensive.
(SECRET NO FOREIGN DISSEM))

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wife, Chiang Ching, these officially sanctioned "revolutionary" works glorify the role of the working masses and invariably depict "class struggle" as the motive force behind all actions.

Perhaps reflecting the deep-seated nature of this dispute, recent Chinese propaganda has tended to vacillate between the need for a genuine cultural revival and praise for Chiang Ching's revised works. The tide seems to be running in favor of raising cultural standards, however, and criticism of certain "left" policies calling for a "liquidation" of literature and art is appearing more frequently. Thus it appears that even in the cultural sphere, where they once held sway, the influence of Madame Mao and other Cultural Revolution extremists is diminishing. (SECRET NO FOREIGN DISSEM)

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PERU-CUBA-OAS: Peru has called for a special OAS council session today to consider normalization of relations with Cuba. Lima has repeatedly said that it will not move unilaterally without first taking the question before the OAS.

Last December, the Peruvians sounded out the membership on a draft resolution giving individual OAS members "freedom of action" in normalizing relations with Havana. Despite the negative response to this idea, the Velasco government has announced that it now will present a similar proposal formally.

Regardless of the outcome of the session today, Peru can say it has consulted the OAS, but the vote could affect the timing of its next move. If the initiative is reasonably successful in demonstrating that there is no longer an overwhelming majority fully committed to the sanctions voted in 1964, Lima will likely move forward rapidly with bilateral relations. If it is defeated by a heavy margin, however, President Velasco's promised evaluation of the other members' positions could be lengthy. (CONFIDENTIAL)

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CHINA: The campaign to revitalize cultural activity, under way since last winter, appears to be gaining momentum.

Last week a joint editorial in Peking's three leading publications put an authoritative stamp of approval on recent calls in the provincial press for an upsurge of creative work in the cultural sphere. The current phase of the campaign, timed to coincide with the 30th anniversary of Mao Tse-tung's talks on literature and art, has produced a flurry of cultural exhibitions and forums in Peking and most provincial capitals. The regime has resurrected the slogan "let a hundred flowers blossom," thereby calling to mind a period in the 1950s when the party greatly relaxed its restraints on intellectual endeavors.

It is clear, however, that Peking has no intention of permitting the current thaw to evolve into a sort of unfettered intellectual activity that resulted in stinging criticism of the regime during the earlier "hundred flowers" period.

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[redacted] the present campaign has the more limited objective of restoring literary and artistic pursuits in China to the pre-Cultural Revolution level. [redacted]

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[redacted] cadre in Hong Kong are being told that current efforts on the mainland are focused on bringing back old books, rehabilitating veteran artists, expanding the presently limited number of approved operas, and promoting cultural contact with foreign countries.

25X1C

Even these modest efforts, however, are likely to meet with resistance from ultraleftists in Peking who are unwilling to countenance artistic expression that deviates from the handful of "model works" popularized during and immediately after the Cultural Revolution. Revised under the auspices of Mao's

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NOTES

BANGLADESH: Food and security problems are causing increasing concern. A variety of sources, including the chief of the UN relief mission, the top leadership of the ruling Awami League's labor organization, and a respected opposition leader, claim food shortages and disturbances are rising in several areas of the country where distribution systems are not functioning effectively. Leaders of several student, political, and labor groups have called for emergency measures that would further concentrate power in Prime Minister Mujib's hands. The cabinet, which normally meets no more than one day a week, scheduled three consecutive days of meetings early this week, possibly to consider special measures to cope with the situation. (CONFIDENTIAL)

* * * *

CEYLON: The Ceylon Aid Group has indicated that disbursements this year, which include new commitments and balances from prior commitments, would remain around the 1971 level of about \$60 million. The Aid Group stressed the need for Colombo to increase public savings and to stimulate export growth. Although Colombo has taken some limited measures to deal with its economic problems and promised to take more, it apparently remains reluctant to take politically unpopular austerity measures. The insurgency, the drought this year, and the continuing deterioration in the terms of trade have also aggravated the situation. The Aid Group hopes to meet again to consider further assistance, possibly at the end of 1972. (CONFIDENTIAL)

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NATIONALIST CHINA: Continuity of Nationalist policies is assured in Premier Chiang Ching-kuo's newly named cabinet, which includes foreign and defense ministers closely associated with him and his father and which retains able economic technocrats. Some of the appointments also constitute an effort to counter domestic and foreign criticism of the regime's unrepresentative character. The new vice premier is Taiwanese, and, including him, the number of Taiwanese holding portfolios has increased from one to three. Moreover, a Taiwanese has been named provincial governor for the first time during Nationalist control of the island. There is more symbolism than substance in these appointments, however, and power will certainly remain firmly in mainlander hands. Most Taiwanese, nevertheless, will probably welcome the appointments as an important step toward recognition of their aspirations. (CONFIDENTIAL)

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